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UNCLAS SECTION 01 OF 03 LILONGWE 001043

SIPDIS

SENSITIVE

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JOHANNESBURG FOR FCS

E.O. 12958: N/A
TAGS: EINV ECON ECPS KCOR MI
SUBJECT: MALAWI TELECOMMUNICATIONS PRIVATIZED AT LAST

REF: LILONGWE 00709

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SUMMARY

¶1. (SBU) After a delay that started last August, Malawi's telecom provider has been sold to a consortium of local companies for $29 million. President Bingu wa Mutharika had stopped the deal out of concern that the privatized company might disconnect the two state-owned television broadcasters. The World Bank interceded with an offer to build a separate network for the broadcasters. After taking over, the new owners say they will double the subscriber base within 12 months. Embassy views the private company as likely to succeed, and it may give Mutharika some momentum for privatization of the state agricultural congolomerate and the electric utility. End summary.

¶2. (U) After a last-minute delay that lasted four months, the GOM on Tuesday finally approved the privatization of Malawi Telecommunications Ltd. (MTL), the state-owned telecom monopoly. The buyer, Telecom Holdings Limited, is a consortium led by Malawian conglomerate Press Corporation Limited, with participation from insurers Old Mutual and Nico Holdings, plus the Deutsche Telecom affiliate Detecon. The terms of the deal are close to what was originally negotiated last summer: a purchase price of MK3.56 billion ($29 million), with government taking MK1.34 billion ($11 million) and the balance (MK2.23 billion, or $18 million) going toward investment in the company. MTL comes with a heavy debt burden of MK3.15 billion ($26 million), and staff retrenchments are expected to take some MK1 billion ($8 million). MTL currently serves about 40,000 land-line subscribers and has a minority stake in the country's second-largest mobile provider, Telekom Networks Malawi, with roughly 80,000 subscribers.

DELAYED TO PRESERVE THE TV PROPAGANDA NETWORK

¶3. (SBU) As previously reported (reftel), the deal had been stopped by Mutharika at the last instant in August. The crux of the issue was a concern that the two state television broadcasters, which owed hefty arrears to MTL, might be cut off from the MTL distribution network for the benefit of the political opposition. (Everyone in Malawi, government and opposition, views the state broadcasters as propaganda instruments for the ruling party.) This reason for stopping the deal was kept quiet until very recently, and the GOM offered instead a cover story about needing to revisit the pricing and due diligence. In the end, the broadcaster problem was solved by the World Bank (the privatization's original sponsor), which offered to buy a stand-alone satellite distribution system for the broadcasters (at about $1.5 million).

OPPOSITION FROM THE BOARD

¶4. (SBU) The delay also bought time for opponents to try once more to kill the deal. The most vehement opposition has come, predictably, from MTL's board, led by former board chair Ken Msonda, whom government had replaced after he refused to agree to last summer's deal. Msonda has argued publicly that the company is worth $200 million (an estimate with which no credible source agrees) and recently filed a second lawsuit to try to stop the sale, in addition to circulating poison-pen letters about several GOM officials

involved. The board itself has dragged its feet, and indeed failed to show up at the signing ceremony today. Since the GOM, MTL's sole owner, has voted for the sale and signed the papers, the board's eventual cooperation is a foregone conclusion. A board vote is scheduled for 15 December, with no complications expected.

¶5. (SBU) The final due diligence conducted by Telecom Holdings may have uncovered evidence of the MTL board's efforts to corrupt potential supporters in government. A source close to the negotiations has told us that one of MTL's assets, a new car, has been held by a senior GOM official for the past five months for her personal use. This official has publicly expressed her opposition to the deal on many occasions. Three other cars, similarly distributed, are said to have been discovered on MTL's books during final due diligence.

AFTER THE TAKEOVER, QUICK ACTION

¶6. (SBU) Owing to the fierce board opposition--in effect making this a hostile takeover--Telecom Holdings is accelerating its takeover plans to preclude a possible stripping of assets by the outgoing management. The original plan was to take six week to transition to a new management team. Instead, an interim management team, drawn mostly from Press Corporation, is scheduled to take over next week.

¶7. (SBU) Senior executives at Press Corporation have long held that they can grow MTL quickly. The company has publicly committed itself to doubling the subscriber base to 80,000 within 12 months--a task made easier by the fact that MTL was grossly oversupplied with switching and network equipment, and would-be subscribers are waiting up to a year for connection. Next on the agenda is replacing the network's microwave backbone with fiber and satellite connections. Press's record of aggressive sell-offs suggests that it is likely to separate the infrastructure from the service side of the business sooner rather than later. If that happens, it could mean rapid entry for service competitors and a corresponding improvement in coverage and quality of service. Press has also said that it intends to sell its share of Telekom in the near term.

COMMENT: A LIKELY SUCCESS, DESPITE OPPOSITION

¶8. (SBU) This privatization has a high chance of success, in our view. This is in part because Press Corporation, which will wield most of the operational control, is a rare well-run Malawian company. It is also because MTL has been a perfect argument for privatization, with scandalously bad management, a corrupt board, poor service, high prices, and legion unhappy customers. But it was widely seen as state enterprises often are: a cash cow, a strategic asset, and a jewel in the glittering crown of the Malawian economy. As such, it has been a focus of popular (and populist) mistrust of privatization, which is decried as a hardship imposed by flint-hearted outsiders.

¶9. (SBU) Final closure of the MTL deal has brought a measured sigh of relief from privatization advocates (nearly all of whom, true to the popular stereotype, seem to be private businessmen or foreign diplomats). Mutharika's personal intervention to stop the deal in August raised questions about his larger economic agenda and left observers feeling queasy about his frequent statist ad libs. That he has finally approved the deal is a good sign, but it almost certainly would not have happened without pressure from the World Bank and the USG, among others. The Bank intends to press for institutional reform at the telecom regulator, which has been sympathetic to MTL's resistance and may need some incentive to provide a level playing field for new entrants. With luck, a successfully privatized phone company will give this politically weak government some badly needed momentum for privatizing its agricultural and energy companies.

GILMOUR